

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. . . . JUNE 24, 1939

The President's Scratch-Pad

§ In the next week or two each AMA member will receive a copy of the Annual Report of the Association, which was presented on June 8 before the annual business meeting, and which is now being printed. Briefly, AMA "stockholders" (its members) will find that the Association had a good year. It expanded its activities and services and ends its fiscal year in sound financial condition.

§ In the final analysis, the necessary ingredient which an association must have to maintain continual financial health and aliveness is the active cooperation and interest of its members.

§ This year's report shows that AMA in the past 12 months did have that very cooperative spirit that is so necessary, and proof of this is seen in the very extensive program that was maintained.

§ If there were space, I should like to mention by name those hundreds of persons who quite voluntarily did extra work for the Association in helping on conference planning committees, assisting in the carrying out of various planning functions, and in supplying information to the AMA research and editorial departments. In particular, our thanks are due to the various divisional vice-presidents. The high quality of AMA conferences and other divisional activities is a tribute to their conscientious work.

§ But the mere end of the AMA fiscal year does not mean that there is to be any cessation of activities, even for a short time. This period only represents a pause to look over the road that we have come in the past months and to make plans for our future activities. Preparations are already under way for meetings of the various divisional councils to be held during the summer months.

§ The Annual Report gives an indication of the general direction of AMA activity during the next year. I very much hope that every member will read his copy thoroughly, and if possible, send me any suggestions that he has.

Alvin E. Dodd

300 Buyers and Producers Attend Insurance Sessions

Ralph H. Blanchard Becomes Divisional Vice-President, Succeeding J. H. Nickell

Nearly 300 members of AMA's Insurance Division met on May 22-23, at the Hotel Claridge, Atlantic City, N. J., to discuss the problems of industrial buyers of insurance. Demonstrating by its large attendance the increasing interest of companies everywhere in the proper management of insurance activities, the meeting provided, as it has done in the past, a forum where buyers and underwriters joined in an objective discussion of hazards, coverages, etc.

Discussions that were of greatest interest to the group centered around merit-rating problems under social security, the relation between the broker and buyer, boiler and machinery coverage, use and occupancy insurance and fire prevention.

At the luncheon session on the concluding day of the conference, Alvin E. Dodd,

(Continued on last page)

Heads Insurance Division



RALPH H. BLANCHARD

BUSINESS OUTLOOK

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Decline Arrested; New High Levels Expected

The story told by the summaries of business conditions on the inside pages of this bulletin is, substantially, that the decline of the past two months has been arrested and that a reverse trend is under way.

In fact it is the strong belief of many observers that business late in the summer will break through higher levels than it was ever able to reach during the past winter. Among the influences that will aid the rise are: current deflated condition of prices and inventories resulting from well-maintained retail consumption and curtailed manufacturing; a powerful credit and monetary stimulus whose constant pressure will be felt more strongly as time passes; an overflow of foreign business caused by armament programs into this country; one of the most active building seasons in nearly a decade; and an indicated "breathing spell" on the European diplomatic front.

These are the major factors that augur a rising crest for business. There are others which, though not so important, give support to these more basic indicants. All this furnishes a very favorable background for the security markets, whose records in past weeks are believed to have placed them in an excellent "technical" position.

Conservative opinion does not consider that the indicated upward trend will develop into a surging boom, but rather that it will proceed more along the lines of a steady and moderate recovery. Government spending is a factor of vast importance, and while continuing Treasury deficits are probably dampening the chances of new private capital investment, liberal spending is materially helping the consumer goods industries.

In England there is a boom that is marked by a definite shortage of skilled labor. British business men expect that this shortage may extend to all classes of workers and may be accompanied by a shortage of capital goods.

BUSINESS CONDITIONS & FORECASTS . . .

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	National income in April remained above the level of a year ago for the sixth consecutive month; the increase over a year ago, however, was smaller than in any previous month of this year; preliminary information indicates that the national income in May showed some recovery from the April low (June 10).	Though dampened in April by war alarms, hope is being revived by underlying economic forces operating with redoubled force by very reason of the fact that they have been temporarily repressed; as material and psychological resurgence blossoms into confidence, the effects should be progressively constructive (June 17).	The <i>Business Week</i> index of general activity has risen to 99.6, which compares with 98.4 a month ago, 99.3 six months ago, and 98.4 a year ago; despite the inactivity of the market, prospects for better than seasonal performance during the summer are still wor- constructively (June 17).
Money and Credit	For the last few years interest rates in the U. S. have continued to decrease while in England they have shown a marked rise, but at present there is no relation between money rates here and in London; an increase in rates abroad will have little effect on the N. Y. market so long as current conditions prevail (June 17).	Before the basic uptrend ends, all the invigorating effects of bank credit expansion are still to be felt; low interest rates and redundant investment funds invite (a) refunding of old debts at low coupon rates (already developing), and (b) new issues to provide capital for construction and equipment of new plants (June 17).	Reserves of all member banks have passed the \$10,000,000,000 mark, demand deposits are \$1,000,000,000 from the January-March 1938 and commercial loans have been absolutely constant for 12 months; this is an unhealthy condition, but it cannot prove other than inflationary for business (June 17).
Security Markets	No less than three of the technical barometers of the stock market movement appear to be favorable; these barometers are: the movement of brokers' loans and stock values, the recent movement of stock prices, and a market stronger than the computed trend (June 15).	Coming at a time when the stock market had had a considerable rise without appreciable interruption, news of international tension in the Orient appears to have been a major influence in touching off a recession; domestic business and political factors continue favorable and the underlying trend remains one of recovery (June 17).	The Standard Statistics price index of 90 stocks recently registered 92.6, which compares with 88.4 a month ago, 99.3 six months ago, and 98.4 a year ago; despite the inactivity of the market, prospects for better than seasonal performance during the summer are still wor- constructively (June 17).
Production	Manufacturing activity in April experienced a rather sharp set-back; the index of factory output, on the basis of 1923-1925 as 100 and unadjusted for seasonal variation, declined from 100 in March to 96 in April, the lowest figure of the year; however, this compares with an index of 76 in April last year (June 17).	Auto production has been hit by strikes, but improvement is reflected in expanding steel operations, blast furnace resummptions, increasing copper, lead and zinc orders, rising machinery and equipment demand (June 3).	The latest weekly figures for automobile production are double those of the previous week; electric power output and bituminous coal production have improved moderately; steel mills have been operating at 53.1% of capacity, compared with 45.4% a month ago and 27.1% a year ago (June 17).
Distribution	Department store sales in the U. S. during the week ended June 3 increased 9% over a year ago, compared with a gain of 8% the week previous; the Department of Commerce reports that retail sales of general merchandise in rural districts during May were higher than in any May for the past 10 years (June 17).		The fine showing of retail automobile sales in May and the heavy selling movement in clothing in June indicate that the bearish influence of these industries will be much less than has been feared; food, clothing, tobacco, gas, and replacement tires will show good sales during the year (June 17).
Construction	Building activity showed a contra-seasonal decline from March to April, but contracts were 39.1% larger than in April, 1938; the gain in building contracts over a year ago indicates that manufacturers will receive better support from this source of buying than they did in the same period last year (June 10).	Consistent progress, such as has been seen in few lines in the last year, has been and is being shown by building; total construction awards have run steadily above year-earlier levels since last August, and the outlook is for continuance of gains; the leader has been the residential division (June 3).	During the latest week for which figures are available, the F. W. Dodge four-week daily average of residential building contracts stood at \$5,312,000, compared with \$5,195,000 in the preceding week and \$3,329,000 a year ago; engineering construction awards have declined slightly (June 17).
Agriculture	The Department of Agriculture reports that farm income in 1938 dropped below the 1937 level to \$9,220,000,000, a total which was composed of \$7,538,000,000 from farm marketings, \$482,000,000 from government benefits, and \$1,200,000,000 in products kept for farm consumption (June 10).		Wheat has recently been selling at 75c a bushel compared with 67c six months ago and 70c a year ago; cotton, which sold at 8.22c a pound a year ago, is now quoted at 9.96c a pound (June 17).
Commodity Prices	In the week ended June 3, the price index of farm products continued its decline and reached a new low for the recession; on the other hand, the price index of manufactured goods remained unchanged for the third consecutive week (June 10).	Erratic commodity prices have caused skepticism about the general future improvement, but (1) lagging commodity prices are not abnormal in the early stages of recovery; (2) an undertone of strength has been noticed; (3) governmental policies make it dangerous for anyone to think that no important rise can occur (June 3).	Commodity markets for the most part have been pretty colorless and slightly on the bearish side; Moody's Spot Commodity Price Index (Dec. 31, 1931 = 100) recently registered 144.0 compared with 144.0 a month ago and 144.0 a year ago (June 17).
Labor and Wages	The upward trend in factory payrolls occurring during Feb. and March was interrupted by a set-back in April; the payroll index, on the basis of 1923-1925 as 100, dropped from 86.9 in March to 85.0 in April. Payrolls in April were still 13.9% higher than in the same month last year, when the index was 74.6 (June 10).		Business is booming in England, and the British fear a labor shortage; before the end of the year England will be forced to turn to the United States for supplementary material; the flow of inquiries for prices and delivery of goods has already reached the United States (June 17).
Foreign Trade and Conditions	The curtailment of U. S. export trade which featured the first quarter continued to be in evidence in April; the value of merchandise exported declined to \$231,000,000 from \$274,000,000 in April last year; nevertheless, the potential purchasing power of foreign countries remains strong (June 3).	With British steel output in May already hanging up an all-time record, the added armament load promises to bring a spill-over of orders to U. S. producers, and to divert export business that British mills cannot handle; the aircraft industry here will be especially benefited by the armament race (June 17).	

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

	Dun's Review	Cleveland Trust Company	National City Bank
general activity compares with 90.6 per cent gain is pre-groundswell conservative year is at last see a real	The business situation took on a somewhat healthier tone during May and the first part of June; contributing were the coal strike settlement, the at least temporary allaying of European war fears, and the advance in security prices; trade activity was well sustained as warmer weather arrived (July).	Although business activity as reflected by the physical volume of industrial production has declined each month since last Dec., business sentiment has become more cheerful in recent weeks; among the industries, ship-building and airplane production are booming, while chemicals and printing are doing well (June 15).	With the menace of a European war less acute, there is evidence that the slackening in domestic activity is not going as far as some had feared; various favorable factors in the business situation are indicative of stability or of another modest rise (June).
have passed the deposits are up ary-March level, absolutely stag-unhealthy condi-than inflationary	Bank clearings, 22 U. S. cities, May, \$22,-188,338,000, 1.8% above April, 10.0% above a year ago; Adjusted Insolvency Index (Failures) May, 58.7, compared with 60.8 in April and 59.2 a year ago (July).	Demand deposits of Federal Reserve member banks (excluding government deposits) are now 50% greater than they were in the prosperity year, 1929; check transactions, which reflect changes in business activity, have made a small recovery since 1938 but are still considerably below the level of 20 years ago (June 15).	Excess reserves of Federal Reserve member banks rose \$180,000,000 during the four weeks ended May 24 to a new high of \$4,300,000,000; deposits also increased, but loans recorded little net change; pressure upon the foreign exchanges has eased, resulting in a slowing down of gold imports to the United States (June).
index of 90 stocks compares with 77.2 of the markets, performance of are still working	Although the volume of securities traded in May on the New York Stock Exchange at 12,935,210 shares was the lowest for any month since September, 1934, prices of industrials, public utilities, and rails all showed gains over May, 1938 (July).	The not inconsiderable advance in stock prices which has recently occurred is one of the principal reasons for the more optimistic attitude in business circles (June 15).	Both in Europe and in this country the abatement of war fears has had a stimulating effect upon security prices; stocks have moved up, and high-grade bonds, which were scarcely affected during the stock market drop, have moved into new high ground (June).
automobile production previous week; minorous coal pro-tely; steel mills of capacity, which ago and 27.1%	Activity during the first part of May was below the previous month, chiefly because of the low volume of coal output; steel operations were scheduled at the lowest monthly rate since September, 1938; automobile production during the week ended May 27 showed a contra-seasonal rise (July).	In February of this year the physical volume of industrial production was 25.8% below the computed normal level; then there followed a slight decline to 26.7% below in March, and a more serious one to 31.2% below in April; the preliminary figure for May is 31.4% below the computed normal level (June 15).	With the Federal Reserve index of production as low as 92, and no troublesome accumulations of goods, there is obviously not much room for further curtailment of industrial operations unless consumption drops off considerably; and consumption is supported by Government expenditures as well as by other factors (June).
automobile sales in movement in cotton bearish influence less than had tobacco, gasoline, w good sales this	In May, both wholesale and retail volumes made net advances over April; the preliminary United States Trade Barometer at 84.1 showed a gain of 1 point or 1.2% over the April level, and exceeded last year's comparative figure by 12.3% (July).	Sustained large-scale deficit spending by the Government is having the effect of supporting consumer purchasing power, and this is made evident by the moderately good levels of department store sales, and the high volumes of trade reported by mail-order houses and chains of stores (June 15).	For all the consumers' goods lines the retail trade reports provide encouragement; department store sales over the country in the four weeks ended May 20 averaged 7% over a year ago, in dollars, although prices are no higher; Sears, Roebuck's sales in the four weeks ended May 21 were 28% over a year earlier (June).
which figures are r-week daily aver-contracts stood at 5,195,000 in the 0 a year ago; en-s have declined	Building construction scored a sharp contra-seasonal increase during May; May building permits (215 cities) totalled \$111,507,630, 17.0% above April, 43.7% above a year ago, at the highest level since last July with the exception of March of this year (July).	An additional reason for improved sentiment is to be found in the fact that building construction is holding up very satisfactorily (June 15).	Building contract awards in April were in line with the seasonal trend; for the first three weeks of May they were higher in the residential classification, but lower in public works and the non-residential group; business is deriving more support from general building activity this summer than in eight or nine years (June).
ing at 75c a bushel, s ago and 78c a 8.22c a pound a 5c a pound (June	The Daily Commodity Price Index advanced from 104.77 to 108.02 in May, then declined; by the second week in June, the index stood at a figure of 106.36 (July).		American cotton farmers are facing a difficult problem, due to the decline in this country's share of the world's cotton crop, the drop in our exports, and the accumulated surplus; total exports since August 1st last but recently passed 3,000,000 bales, the lowest figure for a similar period in 56 years (June).
e most part have ntly on the weak dity Price Index y registered 142.9, h ago and 134.3	Employment and payrolls showed the usual seasonal decline during May; gains were made in firearms, tools and cutlery, and airplane industries, while losses occurred in railroad repair shops, business machine plants, hardware, and agricultural implement factories (July).		Staple commodities on the average have recovered the ground lost during the last European crisis; spot cotton prices have advanced, although our surplus of cotton is the largest ever known; this firming of commodity prices signifies that consumers have no excessive stocks and need to enter the markets regularly (June).
and, and the Brit-re the end of this l to turn to the tary materials; a nd delivery terms States (June 17).		There has gradually developed a considerable degree of confidence that European war can be avoided for the present and the near future, and this appears to be the chief reason for the more hopeful sentiments in domestic business circles (June 15).	While business recovery in this country has hesitated and lost ground since the beginning of the year, British business has been experiencing a rise of unusual proportions; mainly as a consequence of increasing expenditures for national defense, Britain may be heading into a boom (June).

Walt Disney and Company Join AMA

Donald Duck Can't Come to Meetings, However



The Walt Disney organization joined the AMA recently, bringing with it Mickey Mouse, Donald Duck, Pluto the hound and the entire company of animal stars, and thus became the first company in the cartoon industry to enter the management movement. It was immediately made clear by AMA's membership department, however, that Donald Duck could not attend the conferences of the Association. He's too bellicose.

To the Disney company, making the world laugh with animated cartoons is a serious business. Behind the funny animals there is a highly complex organization whose signal successes, coming one on the heels of another, have been largely the result of the blending of artistic genius with the best scientific principles of organization.

The principal interest of the company is

in personnel problems—not those involving D. D., but the corps of animators and other technicians who draw him and his fellow actors.

The Disney company is not the only organization from filmdom now in the AMA membership. Others are: Columbia Pictures, Twentieth Century-Fox, and Warner Brothers.

And Japanese Navy

AMA's membership department reports that new memberships have been coming in increasingly large numbers from the West, and even from companies beyond the Pacific shores—including Hawaii, where interest in the AMA has reached a new high point. Indeed, AMA's invasion of the Orient scored a major advance a few weeks ago, when it accepted as a member none other than the Imperial Japanese Navy.

Foreign interest has been on the increase for the last 10 months, and the Association now counts among its members companies in virtually every civilized country on the globe. An executive in Tasmania regularly corresponds with the Association, requesting information on various subjects. Another in Burma is highly interested in office management problems, while in Australia and New Zealand AMA memberships are common. The fascinating thought in connection

Office Management Sessions Set for October 25-26

(Continued)

of office operations are mentioned on the list. These divisions are: general organization; personnel; control of work and pay; routines, systems, and methods; equipment and supplies; and facilities. Members are being asked to examine the list and to check those topics which seem to them to be of the most timely interest and importance.

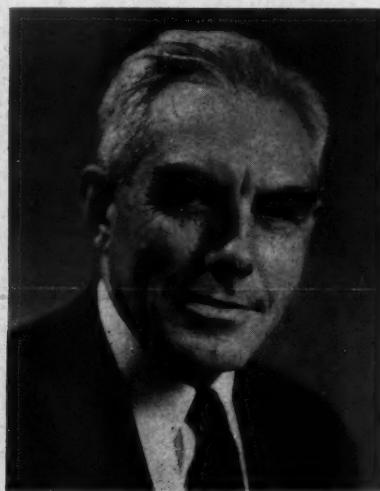
with this foreign participation in AMA is the world-wide interchange of management information which is made possible. Consider, for example, that an office or factory system worked out by executives in St. Louis is transmitted via the AMA to some company in Burma or Singapore, where the system is found to be the very thing suited to the needs of a tin mine or a teakwood factory.

In the United States itself, of course, membership continues to grow. As has been noticed in the past, there is a pronounced tendency for companies to join the Association on an industry-wide scale. This has been true recently of concerns in the food industry, the packing industry, liquors and distilling, and air transport.

New Divisional Vice Presidents of AMA



J. WALTER DIETZ
Personnel Division



E. O. SHREVE
Industrial Marketing Division



IRWIN D. WOLF
Consumer Marketing Division

Above are three new divisional Vice Presidents of the AMA who will serve their divisions during 1939-40.

Mr. Dietz is Personnel Relations Manager of Western Electric Company. As the new Vice President of the AMA Personnel Division he succeeds C. R. Dooley, Manager, Industrial Relations, Socony-Vacuum Oil Company.

Mr. Shreve who is Vice President in Charge of Sales of the General Electric Company will head AMA's Industrial Marketing Division. He follows Thomas J. Harte, Vice President of the North American Cement Corporation.

Irwin D. Wolf, Vice President, Kaufmann's Department Stores, Inc., Pittsburgh, Pa., will lead the Consumer Marketing group. He succeeds Edgar Kobak, Vice President, Lord & Thomas.

Other new divisional Vice Presidents are: Ralph H. Blanchard, School of Business, Columbia University, who will be in charge of the Insurance Division; and Norman C. Firth, Managing Editor, Dun's Review, who heads the Office Management Division. Mr. Blanchard succeeds J. H. Nickell, Philadelphia Electric Company; Mr. Firth follows C. L. Stivers, Jewel Tea Company, Inc.